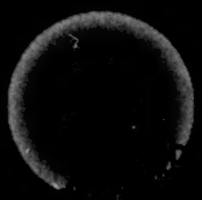
C4586-1

January 1990 $6.00

How Earthquake Affected Oil Facilities
Harken Energy Targets Rural Sunbelt
Why Car Wash Industry Is Modernizing

NPN
National Petroleum News

1990 Outlook: Reflection Of '89 Maybe Better



1989

1990

BETHESDA MD 20814
4520 EAST-WEST HWY STE 800 C
CONGRESSIONAL INFO SERVICE
ACQU EDITOR SRI NPN
SRI ACQUISITIONS #0757
29389 01 52 0690 K3661 JAN90
**********MIXED CTY 20814

NPN
NATIONAL PETROLEUM NEWS
Established in 1909

VOL. 82 **NO. 1**

Editorial Staff:

Editorial Director & Editor-in-Chief
Frank M. Victoria

Managing Editor
Peggy Smedley

Executive Editor
J. Richard Shaner

Senior Editor
Donald M. Smith

Staff Reporter
Steve Dwyer–Chicago

Production Editor
Julie E. Miguel

Editorial Assistant
Arlene Clatts

Contributing Correspondents
Marvin Reid
Mark Emond
Angel Abcede

Columnists
Sam Borenkind
Irving Blackman
Paul Forbes
Howard Upton

Executive Staff:

Chairman of the Board
Elliot Stein Jr.

Vice Chairman of the Board
I. Martin Pompadur

President
Robert E. Yarbrough Jr.

Publisher
Wm. D. Straub

Circulation Director
Roger DiGregorio

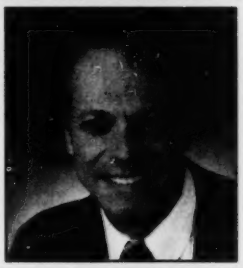
Circulation Manager
Patricia Kaminski

Director of Production
George Chmielarz

Production Manager
Lloyd Schultz

Classified Sales
Elizabeth Santelli

Regional Reporters:
East Coast: J. Richard Shaner, P.O. Box 1476, Morristown, NJ 07962-1476. (201) 428-2902
Midwest: Steve Dwyer, 950 Lee St., Des Plaines, IL 60016. (708) 296-0770
South: Angel Abcede, 950 Lee St., Des Plaines, IL 60016. (708) 296-0770
West: Mark Emond, P.O. Box 8130, Anaheim, CA 92812-0130. (714) 774-5598



Editor's Viewpoint

No doubt there are many instances of people and organizations standing on principle, viewing issues with long range vision and recognizing responsibilities and standing by them regardless of cost or controversy. Still, when it occurs it seems rare because we're in an age that's too often dominated by expediency, short term thinking and ridicule of traditional values.

That's why SIGMA's response to a disagreement with Arco, which resulted in that company withdrawing from the association, stands out. With all that's happening in this industry, and in the world, it may seem a small event. But on another level—understanding obligations and acting on them in a principled manner—it is significant. Knowing the people at PMAA and NACS and other national and regional associations, I'm sure that given similar circumstances they would react the same way. But this time it was SIGMA's show, and it's worth noting.

Very briefly, the background is that USA Petroleum Co. in Santa Monica, Calif., won a circuit court decision against Arco in a case involving anti-trust laws. Arco appealed the decision and the Supreme Court will rule on it shortly. SIGMA filed an *amicus curiae* (friend of the court) brief supporting USA Petroleum. Carl Bolch, Jr., SIGMA's outgoing president, explained SIGMA's reasoning at the association's recent annual meeting. "It's SIGMA's understanding that vertical price fixing is per se a violation of anti-trust laws," he said, adding that Arco contends "their sales to their dealers must be below their cost" to violate anti-trust laws. Bolch said SIGMA thinks this would be "a very dangerous precedent" and filed its amicus brief to support a concept it thought was important. Arco, perhaps feeling duty-bound itself, dropped its associate membership with SIGMA.

In this context, the actual case and its legal points and rights or wrongs involved in the suit are immaterial. Arco might be correct; it might not. What's important is that SIGMA, no doubt realizing (or perhaps even having been told) that Arco might withdraw from the association, made its stand—probably a costly one, too; Arco's dues must have been substantial.

Bolch summed up SIGMA's attitude well: "We have to remember that the mission of SIGMA is the mission of its regular members [jobbers]. And that mission must always be foremost...We must always remember that we must be ready, willing and able to stand up on issues that are important to SIGMA's regular members. I'm very proud of SIGMA doing this. SIGMA will not be silenced."

What could I add to that? Except: Congratulations. Keep up the good work.

—Frank M. Victoria

NPN—National Petroleum News (ISSN 0149-5267) is published monthly (except semi-monthly in June) by Hunter Publishing Limited Partnership, 950 Lee Street, Des Plaines, Illinois 60016, (708) 296-0770.

© NPN—National Petroleum News

Second class postage paid at Des Plaines, Illinois and additional mailing offices.

Subscriptions are solicited only from executive, management and supervisory personnel at the supplier and wholesale level of oil marketing, engaged in the distribution, merchandising, transportation and storage of petroleum, TBA products, and convenience store items. Position, company and segment of industry must be indicated on subscription orders.

The Audit Bureau

HUNTER ®

Basic **subscription rates** for one year to individuals in the petroleum marketing industry are: U.S. $56; Canada $65 (U.S. $); Foreign surface mail $71 (U.S. $); Foreign airmail $106 (U.S. $). Non-industry personnel rates for one year are: U.S. $71; Canada $80 (U.S. $); Foreign surface mail $86 (U.S. $); Foreign airmail $130 (U.S. $); **Single copy price:** U.S. & Canada $8.00 (includes first class postage). Foreign $10.00 (includes airmail postage). **Mid-June Factbook:** U.S. $50; Canada $60; Foreign $70. The publisher reserves the right to accept or reject any subscription. (R) Title registered in U.S patent office. **Change of address:** Notices should be sent promptly; provide old mailing label as well as new address; include ZIP or postal code. Allow 6-8 weeks for change. Send address changes, correspondence regarding subscription service or subscription orders to: Circulation Department, NATIONAL PETROLEUM NEWS, 950 Lee Street, Des Plaines, Illinois 60016. Or call (708) 296-0770, 9 a.m. to 4 p.m.

Postmaster: Send address changes to NPN—NATIONAL PETROLEUM NEWS, 950 Lee Street, Des Plaines, Illinois 60016.

NATIONAL PETROLEUM NEWS

14 Regional News

14 West
Indies worried by prospective Tosco buyout

15 East
New Jersey self-serve is a borderline affair

16 Midwest
Coastal, Phillips have Kansas jobbers wary

19 South
New Mexico investigates high Santa Fe prices

23 General News

23 Environmental issues rivet oil industry attention

23 Consumer group says self-serve raises cancer risk

24 Marketers focus on clean air plan

25 Utah slates bill to ban beer sales

25 Citgo unveils new marketer programs

26 API chief cautions of import dependence

26 Fed officials evaluate impact of Valdez spill

27 Disability legislation would raise C-store costs

27 Aftermarket growth forecast at car care center meeting

27 CSX announces rail pricing plan

28 Herb Richards wins top PMAA award

30 Features

30 Cover Report
Outlook 1990: a reflection of '89, but some improvement

36 Marketing
Car wash industry modernizes for the '90s

42 Management
Acquisition-minded Harken targets rural Sunbelt markets

49 Operations & Equipment
How oil facilities fared in San Francisco earthquake

60 O&E Management—Howard Upton
Absent pipes don't leak

61 Legal Tips—Sam Borenkind
Convenants: To compete or not

62 Tax Corner—Irving Blackman
How to transfer your business

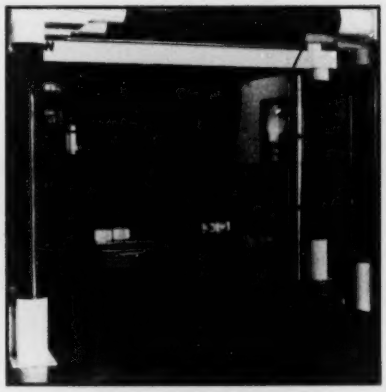
63 Marketing Management—Paul Forbes
How to hold a successful meeting

Departments

52 About Oil People
7 Ahead of the News
58 Briefs
9 Catching Up
68 Classified
64 Coming Meetings
3 Editor's Viewpoint
10 Marketplace
54 Product Showcase
10 Trends

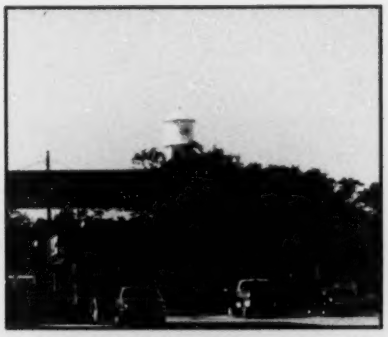
The outlook for the year ahead looks pretty much like a return engagement of 1989 for downstream marketers. But that's not bad; last year was a good one for the industry.

Page 30



Encouraged by many oil companies, car wash and pump manufacturers are joining forces to develop high-tech accounting systems to generate detailed information on station activities.

Page 36



Texas-based Harken Energy Corp. has spread its oil field origins and, in a very short period of time, has established itself prominently in several different energy markets.

Page 42

Do Quotas Remain Important To OPEC?

Almost from the beginning, members of the Organization of Petroleum Exporting Countries have argued loud and long about production quotas and market shares. Now a new scenario is emerging that will largely ignore such allocation formulas and vest control, instead, in the four or five Persian Gulf countries that have the most reserves—and the greatest wallop within the cartel.

It's a precarious concept in one sense but it could presage for American oil marketers the likelihood of adequate supplies and acceptable prices throughout the '90s. The wild ups and downs of the past would fade into history. Catch 22, of course, is the temperaments of the Big Four or Five. Petty jealousies, greed or acceptance of the fact that nothing is ever really stable in the Mideast could revise the scenario anytime.

The new design acknowledges for the first time that half of the cartel nations couldn't increase their output very much even if they were given bigger and better quotas. Among them are Gabon, Qatar, Indonesia, Algeria, Libya and Iran. Some simply do not have enough oil in the ground to support higher production schedules (and quotas) while others, like Libya and Iran, have adequate subterranean reserves but lack technology and equipment to bring the stuff to the surface. Some, like Libya, Indonesia and Algeria, may have serious problems simply meeting allocation schedules in the early '90s.

The "haves" in this equation are Saudi Arabia, Kuwait, the United Arab Emirates, Iraq and eventually Iran once it achieves postwar stability.

The new OPEC compact for the first half of this year raises the production level to 22.1-million b/d vis-a-vis the old schedule of 20.5-million b/d. The irony is that OPEC averaged more than 23-million b/d in the last quarter of 1989. In its own way, this tells you flat out what quotas mean and have meant to the cartel. Also, The United Arab Emirates have said—as they have right along—that quotas are for the birds and they will produce as much oil as the market will bear. So much for the integrity of future allocation schedules.

The expectation is that demand for OPEC oil will continue to grow in the '90s. If some of the member countries, as indicated above, can't increase their output above their current quotas (or higher ones in the future, for that matter), some shortfalls are likely to develop. Since there are no written guidelines for the others, the top four or five can ignore their quotas too and not only take care of the shortfalls, but meet higher demand easily from their abundant reserves. The $64 question is: Can they do it amicably or will they fight for every drop that each can get?

Here's the quota schedule for the OPEC members in the first six months of 1990:

Country	New Quota	Old Quota	Change Million b/d
Saudi Arabia	5.38	5.01	0.37
Iraq	3.14	2.93	0.21
Iran	3.14	2.93	0.21
Venezuela	1.95	1.81	0.14
Nigeria	1.61	1.50	0.11
Kuwait	1.50	1.20	0.30
Indonesia	1.37	1.44	(0.07)
Libya	1.23	1.15	0.08
UAR	1.10	1.10	---
Algeria	0.83	0.77	0.06
Qatar	0.37	0.35	0.02
Ecuador	0.27	0.25	0.02
Gabon	0.20	0.19	0.01

It is interesting to note that Indonesia's deficiency plight is such that its quota for 1990 is being cut by 7,000-b/d. There's no change in the production quota for the United Arab Emirates, the cartel's most flagrant over-producer. The UAR, in 1989, released a study upgrading its oil reserves tremendously. The Emirates say they have more oil in the ground than Saudi Arabia. Could this be the first step in a campaign to displace Saudi Arabia as the biggest oil power in the Gulf? It's something to keep an eye on.

—by J. Richard Shaner

• MARKETPLACE AT A GLANCE

AVERAGE GASOLINE PRICES IN THE U.S. (per gal.)

OCTOBER	Gasoline (All types)	Leaded Regular	Unleaded Regular	Unleaded Premium
U.S. City Avg.	$1.071	$1.001	$1.027	$1.209
Regions				
Northeast	1.102	1.071	1.030	1.237
North Central	1.085	1.037	1.052	1.234
South	1.061	1.019	1.008	1.176
West	1.043	0.972	1.015	1.215

Source: U.S. Dept. of Labor, Bureau of Labor Statistics.

STOCKS (add 000 bbl.)

	12/1/89	12/2/88
Gasoline (total)	223,080	219,642
Gasoline (Unleaded)*	166,940	123,877
Jet Kerosine	44,293	38,458
Distillates	122,458	128,882
Residual	52,557	42,785

** Included in gasoline total.*
Source: American Petroleum Institute.

Outlook 1990: A Reflection Of '89, But Some Improvement

Downstream marketers who had reasonably good and profitable operations in 1989 can look forward to more of the same this year.

It's almost like reciting "de ja vu all over again"—with minor and modest improvements for just about everyone in oil. But jobbers, dealers and others agree that even de ja vu with touches of optimism is infinitely more desirable than minus-signs and negative outlooks.

Federal and industry analysts believe that the next 12 months will be a virtual replay of 1988 and 1989 where the industry's vital statistics are concerned.

They say that products, prices and profits will be firm and predictable so long as there are no major upheavals at home or abroad.

Nothing world-shaking is in the forecast, they say, just continuation of the improvements that have been slowly distancing the industry from the pain of the supply, demand and price traumas of late 1986 and early 1987.

It used to be that year-end prognosticators were all over the place in the petroleum industry. Today there are only a few still in business, with the federal government's Energy Information Administration (EIA) and the oil industry's Independent Petroleum Assn. of America (IPAA) the best of what's out there.

Wall Street and the financial houses often have forecasts but generally they're circumscribed to serve their own purposes.

The 1990 projections of the EIA and the IPAA vary a bit but are relatively close in their conclusions.

Gasoline demand up

The federal government, for example, believes gasoline demand will be up about 1% in 1990. IPAA is a bit more conservative in this area. It anticipates a growth of only 0.4%. The big point is that they concur in foreseeing improvement in 1990.

The federal government expects distillate consumption to average 3.17-million b/d while IPAA projects an average consumption of 3.26-million b/d. This would seem to indicate that IPAA is more bushytailed than EIA about consumption growth in 1990. But that's not quite the story. IPAA's estimate for 1989 consumption of distillates was 3.24-million b/d while the federal government's was 3.12-million b/d. Thus the bases are different and, on a percentage comparison, the government's anticipated increase is 1.6% while IPAA's is 0.6% Either way, however, both forecasts are on the plus side.

By J. Richard Shaner
Executive Editor

The two groups of analysts also agree on another item. The gains in distillate sales in 1990 will have little or no meaning for the purveyors of home heating oils. They'll be the end result of the continuing increase in the size of the diesel cut for transportation.

IPAA doesn't get into price projections for the consumer marketplaces so this is an area that the federal government has pretty well to itself.

Its latest Short-Term Energy Outlook, distributed in mid-November, says retail gasoline prices will average $1.09/gal. in 1990. That's up 3¢/gal. over 1989's $1.06/gal., which in itself was up 10¢ over 1988. These numbers are for all grades and services and include federal and state taxes.

Gasoline prices in the 1990s are expected to peak at $1.13/gal. in the third quarter of this year, then dwindle to $1.05/gal. in the fourth quarter, which is only 1¢ higher than where they were at the end of 1989.

In May of last year, the highest average price was $1.15/gal. By September that had declined to $1.07/gal. The September price, in its own right, was 28¢/gal. lower than the all-time high of $1.35/gal. that prevailed in 1981. The 1990 forecast of $1.09/gal., if it proves to be accurate 12 months hence, will be 26¢ under the all-time high.

Leaded regular surprises

A mild surprise, of sorts, is the fact that the phasing out of leaded regular gasoline is expected to end abruptly in 1990, at least for the time being. The general feeling had been that demand for leaded regular would continue to skid in 1990 and would wind up at perhaps the 10% level for a loss of two percentage points. Now the expectancy is that leaded regular will hold on to about 12% of the volume this year, the same as in 1989. This is only a minor difference but it's the first stoppage in the decline that began a decade ago.

Another item of interest in the EIA study was that last summer, premium's share of the gasoline market declined from 25-22%. Midgrade increased its share, at the same time, from 5-7%. Unleaded regular, EIA says, benefited from both the continuing erosion of leaded regular's share of the market as well as the switch away from unleaded premium, rising from 57-61%.

These shares vary regionally, however, with consumer buying patterns and oil company advertising and promotion. In the East, for example, premium sales have been reported in the 35% range, with the midgrade unleaded around 10-12%. In the Southeast premium unleaded sales were known to be higher than 50% for some marketers, notably Shell and Amoco. There have been a number of studies in the last year or so which contended that most cars on the road do not need premium fuels and that many consumers are being "huckstered" as a result.

Wholesale and retail prices for No. 2 distillates for space heating purposes aren't going to change much, according to the EIA forecast. Wholesales are pegged at 54¢/gal.—no change from 1989. Retails are expected to be up 2¢ over the course of the year, averaging 88¢/gal.

The EIA outlook is based on the probability that international crude oil prices will be fairly stable in 1990. The Organization of Petroleum Exporting Countries (OPEC), which is the monkey wrench factor in virtually all major price developments, indicated at the end of 1989 that it would like crude oil prices to average out around $18/bbl. EIA is betting that they'll be a bit less than that—$17.50/bbl.

As has been the rule in recent years, the bothersome factor is that OPEC members talk a lot about stability and quotas but many only pay lip service to the compacts they grubbily sign every couple of months.

The $17-$18/bbl. range is a liveable area for the domestic industry in the '90s although most majors and bigger independents would like to see crude prices go up, preferably to the $20-$22/bbl. range. It's interesting to note that the relatively recent talk about $50-$100/bbl. by 2000 all but vanished in 1989.

Another thing to bear in mind is the 1990 weather forecast. Last winter (1988-'89) was 4% colder than normal. If this winter is normal or warmer than normal, distillate deliveries and prices could be in for bad times. If that happens, gasoline inventories would be rebuilt too rapidly and suppliers would be forced to open the spring and summer driving seasons in distinctly uncomfortable pricing positions. Otherwise distillate news contains no surprises or even the hint of tight supplies.

Nightmares in the making

U.S. crude oil production is expected to average less than 7.4-million b/d in 1990, a decrease of 329,000-b/d from 1989's 7.7-million b/d which, in turn was down 460,000 b/d from 1988. In 1985, crude oil production rebounded to almost 9-million b/d. The 1990 production projection includes about 25,000 to 30,000-b/d from Point Arguello, an offshore California field discovered seven or eight years ago and only now coming on stream. It takes that long.

Imports of crude oil and products, according to IPAA, will average 8.4-million b/d in 1990, up 4% over 1989 which were up 10% in 1989. The trade association noted that the 1990 import dependency will match the 1977 peak of nearly 46% of supply.

Transcending all these relatively routine supply, demand and money forecasts are the incredible array of political and environmen-

American dependency on oil imports is rising and will probably continue. U.S. crude production is expected to average less than 7.4-million b/d in 1990, a decrease of 329,000-b/d from 1989, which was down from 1988. The 1990 production projection includes about 25,000-30,000-b/d from Point Arguello, an offshore California field discovered seven or eight years ago and only now coming on stream. Imports of crude oil and products, according to IPAA, will average 8.4-million b/d in 1990, up 4% over 1989 which were up 10% in 1989. The trade association noted that the 1990 import dependency will match the 1977 peak of nearly 46% of supply.

Gasoline demand will increase this year. The federal government expects gasoline demand will be up about 1%. IPAA is a bit more conservative, anticipating growth of only 0.4%. The big point is that they concur on improvement in 1990.

tal traumas raking the industry, from service station pumps to exploratory activities in the oil fields.

Ten years or so from now, as a matter of fact, the year that just began may be looked back upon as the one that signalled the end of oil products and oil marketing as they exist today.

The winds of change are coming on strong now and are approaching the howling stage with feverish impatience. Many already sense that 1989-'90 is the advent of an inevitability that's long overdue.

For them, it's no longer a question of if—it's only how soon.

This is not to be considered a prophecy of doom or irreversible trend by any means. Likewise, it is not to be construed as a negative forecast that oil marketers and oil products are likely to be relics of the past at the end of the '90s.

To the contrary, it is simply tacit recognition that major turnarounds are in the making; that the winds that are blowing now can't help but be irresistible by the mid-'90s; that the marketers who survive this, the last decade of the 20th Century, will be bigger, stronger, better equipped and infinitely more facile in the way they do business in 2000.

There'll be more tougher, tighter regional oil companies, and fewer, if any, national companies marketing in the majority of the 50 states, let alone all of them as commonplace in the '60s and '70s.

PMAA viewpoints

Petroleum Marketers Assn. of America's (PMAA) Long-Range Planning Committee supports this view. In a recent published commentary, executive vice president Phillip R. Chisholm, for example, summarized the responses to the committee's probing questionnaire about the future of independent gasoline and fuel oil marketers in these words:

"The prevailing view appeared to be that the coming years will see fewer but stronger marketers, and that these 'survivors' will be an important part of the country's total marketing mix. In order to do so, they will have to be even more sophisticated, more flexible and, yes, more competitive.

"There was almost unanimous agreement that the federal government, already an important factor in every marketer's business, will play an even larger role in the future, particularly with regard to the environment."

The long-range committee says of the 10,000 independents in business now, only 7,000 will still be around in 1995 and of these, only 5,000 will be on tap in 2000. In other words, a 50% reduction in the total number of independent oil marketers. (See related story on page 33.)

There is no question that the gasoline and fuel oil industries are still in the throes of retrenchment. The problem here is that neither government, nor industry nor anyone else has been able to come up with accurate nosecount numbers rather than "guesstimates."

The U.S. Census Bureau's most recent population count, made at the end of 1987 and published in late 1989, says there were only 105,000 "true" service stations in business on Dec. 31, 1987 *[NPN*—Nov. 89, p23]. "True" was defined as business places with payrolls getting more than 50% of their revenues from gasoline sales. Informal counts indicate there are 40,000 or so convenience stores and others selling gasoline, and perhaps as many as 10,000 stations without payrolls,—the traditional Mom-and-Pop type outlets.

On an orthodox basis then, the Census Bureau count says service station population of 105,000 at the end of 1987 was 121,000 below the all-time high of 226,000 in 1972. Industry experts believe this down trend continued in 1988 and 1989 and is expected to keep going that way in 1990 although at a slower pace. It would not be surprising though that if another census were made at the end of 1990, the total would be under 100,000.

Against this sort of a backdrop, downstream independents should keep in mind the report of PMAA's Long Range Study Committee and the words of Chisholm: "Interestingly, the principal tenet of the (committee's) base case scenario is that (in the 1990s) there will be fewer but stronger petroleum marketers (but they) will be able to retain or increase slightly their market shares."

New world of products

By the year 2000, oil companies and oil marketers will be making, buying and selling a variety of new motor fuels, heating oils, avgases and lubricants. The transportation vehicles themselves and the equipment that heats homes and offices, generates light and power and enables monstrous ships to sail the seas will be different too. They may have

Unleaded regular, EIA says, benefited from both the continuing erosion of leaded regular's share of the market as well as the switch away from unleaded premium, rising from 57-61%. Still, leaded regular has been somewhat of a surprise. Its phase out is expected to end abruptly in 1990, at least for the time being. The general feeling had been that demand for leaded regular would continue to drop this year. But now the expectancy is that leaded regular will hold on to about 12% of volume, the same as in 1989. This is only a minor difference but it's the first stoppage in the decline that began a decade ago.

the same or near-similar names in the year 2000, but that's about all. Gasoline, as it's constituted today, will be a thing of the past.

The industry that will supply the new breed of marketers with products will be different too—more than a stone's throw removed from the potpourri of explorers, producers, refiners and transporters who really haven't changed themselves or their techniques and technologies that much from the original molds and concepts of a century ago.

Consider, for example, the turmoil that's suddenly overtaking motor fuels. Two or three years ago reformulation of fuels, alcohols, methanol, etc., got more lip service than action. Today, there's near panic in the air (clean air, that is) as the oil and automotive industry jump head first into a cooperative research program for new motor fuels and engines that may ultimately cost $25-million to $50-million. The automakers have been mandated by the federal government to have a million new cars available by 1995 that will burn methanol straight, or methanol mixed, or other chemical additives or alcohol enhanced fuels. Even natural gas and propane are real live prospects. California is already testing methanol fleets. Chevron, Arco, Sun and others are in the marketplaces with adulterated fuels. By the end of this year, probably everyone of significance will be doing the same thing. They're trying desperately to hold on to the past but at this point are willing to do almost anything to insure themselves a role in the future.

There's little doubt that political issues will be compounded in 1990 and the pressures will be relentless throughout the decade. Underground tanks and tank insurance remain a big factor, but the clean air plan, reformulation of gasoline (possibly requiring additional separate storage tanks and pumps), colorization of diesel fuels for highway and household uses, motor fuel tax hikes and many other legislative and regulatory issues will also weigh heavily on marketers.

Octane numbers will probably lose their impact as the Holy Grails of progress and sales promotion. They're important. But they're already losing their luster as hordes of foreign and domestic small cars as well as abandonment of the high, 11-to-1 compression ratios of the past have done them in. A bit of octane irony: In 1927, a skinny young kid from St. Louis, Lindbergh by name, flew a monoplane from New York to Paris with 87-octane gasoline, the best available at the time. By way of comparison, current octane numbers range from 87 to 94.

Environmental Issues

There's no question that these and other political issues will be compounded in 1990 and the pressures will be relentless throughout the decade. Clean air, clean water, underground storage and spiraling insurance costs, reformulation of gasoline (possibly requiring additional separate storage tanks and pumps), colorization of diesel fuels for highway and household uses,

PMAA Forecast: '90s Will Be Wicked; Only Half Will Survive

Stricter environmental regs, supplier withdrawals, buyouts and mergers and intensified competition from the majors—these are the ingredients that Petroleum Marketers Assn. of America believes will impact heavily on independents over the next 10 years.

An 18-member, long-range planning committee, headed by old pro Jack Griffith (PMAA president in 1985), was almost grim in its projection on what lies ahead for gasoline and fuel oil marketers.

Of the 10,000 or so in business right now, expect 3,000 to be casualties by 1995, the committee said. During the next five years, drop another 2,000 from the active business rolls. By 2000 A.D., only 5,000 will be on the scene— leaner, tougher and all that but nevertheless only half of as many as are out there now.

A ray of sunshine: The survivors should be able to retain the market share they presently control.

There were three scenarios presented to PMAA's meeting in Louisville, Ky., in November. a Base Case, a Best Case and a Worst Case.

The Base Case anticipates the drastic reduction in the number of independents surviving—5,000 instead of 10,000. They'll grow in size and volumes but they'll have to be innovative and facile to do it. There'll be adequate supplies at competitive prices but alternative fuels are going to change things for many of them.

The Best Case anticipates that major suppliers will continue to regard the independents as valuable in their operations. There won't be any supply or price problems although alternative fuels will force them into new channels. The future will be relatively free of oil import fees, divorcement and divestiture complications and will find state and federal environmental regulations easier to cope with. No new tax increases would be a part of this projection.

The Worst Case anticipates wholesale application of Murphy's Law in all directions. Alternative fuels would be mandated, environmental regs would grow in cost and complexity, banks would be reluctant to advance money to struggling independents. Federal divorcement and divestiture would be serious problems and supplies would be inadequate, bringing on an oil import fee and an increase in the excise tax.

Not long after the report was distributed, PMAA set up an Ad Hoc committee to map out courses of action and reaction.

1990 FORECAST: SOME SMALL GAINS

BY THE QUARTERS

	1Q	2Q	3Q	4Q	1Q	2Q	3Q*	4Q*
	----1990 Projections----				----1989 History----			
DEMAND (million b/d)								
Motor Gasoline	7.05	7.59	7.58	7.41	7.08	7.46	7.47	7.36
Leaded	.91	.94	.90	.84	1.00	.92	.76	.99
Unleaded	6.14	6.65	6.68	6.57	6.08	6.54	6.72	6.37
% Unleaded	87%	88%	88%	89%	86%	88%	90%	87%
Distillates	3.56	2.96	2.81	2.35	3.38	2.98	2.83	3.30
Residual	1.39	1.03	1.10	1.24	1.60	1.24	1.12	1.28
Total U.S. (a)	17.69	16.84	17.29	17.82	17.62	16.81	16.89	17.69
PRICES (per gal.) (b)								
Motor Gasoline (c)	1.08	1.11	1.13	1.05	.96	1.13	1.11	1.06
No. 2 Diesel Fuel	.98	.96	.96	.97	.94	.99	.95	.97
No. 2 Heating Oil								
Wholesale	.53	.52	.52	.56	.53	.53	.52	.57
Retail	.91	.87	.84	.89	.86	.86	.83	.88
Residual (d)	.41	.39	.40	.41	.36	.41	.39	.40

ANNUALIZED COMPARISONS

	1990	Full Year 1989	1988	'90/'89	Percent Change '89/'88	'88/'87
DEMAND (million b/d)						
Motor Gasoline	7.41	7.34	7.34	1.0	0.0	1.8
Leaded	.90	.92	1.34	(0.2)	(31.3)	(23.0)
Unleaded	6.51	6.43	6.00	0.1	7.2	0.1
% Unleaded				88%	88%	82%
Distillates	3.17	3.12	3.12	1.6	0.0	4.7
Residual	1.19	1.31	1.38	(9.2)	(5.1)	9.5
Total U.S. (a)	17.41	17.25	17.28	0.9	(0.2)	3.7
PRICES (per gal.) (b)						
Motor Gasoline (c)	1.09	1.06	.96	2.8	10.4	0.0
No. 2 Diesel Fuel	.97	.96	.91	0.1	5.5	(2.2)
No. 2 Heating Oil						
Wholesale	.54	.54	.47	0.0	14.9	(11.3)
Retail	.88	.86	.81	2.2	6.2	0.1
Residual (d)	.40	.39	.33	2.6	18.2	(21.4)

* Third and Fourth quarters '89 are estimates; (a) includes all other oils; (b) includes federal and state taxes on all products except heating oil which is not taxed; (c) average for all grades and services; (d) average for all grades of sulfur.

Source: Energy Information Administration, Short-Term Energy Outlook, October.

motor fuel tax hikes, etc. There are so many of them that for many marketers it will be like swatting mosquitos night and day to stay alive and well.

At the American Petroleum Institute meeting in November, one speaker warned that growing popular and political sentiment to curb air and water pollution and slowing the global warming trend will exact an increasingly heavy toll on suppliers and distributors alike.

"The public policy debate is pointing inexorably to higher costs and lower demand for petroleum product," one Washington analyst said.

An Environmental Protection Agency executive laid it right on the line at the same meeting. Stronger steps are in the making to force further reduction in toxic emissions, he said. The Exxon Valdez oil spill in Alaska was cited as a clearly inept way of rising to the challenges that face the industry.

At the PMAA meeting in Louisville in November, C.J. Silas, president of Phillips Petroleum Co., said it is very clear that environmental stewardship will be "the" issue of the '90s and that marketers especially must keep themselves deeply involved. A closing comment: "We do not inherit the land from our ancestors. We borrow it for our children."

New PMAA president Bruce Chiles urged marketers at the same meeting to focus their attention on the opportunities of the decade ahead, not the problems.

"Those marketers who wring their hands and bemoan their fate or make no effort to impact their fate are probably not long for this world," he said. "Those who obtain the same information and say, 'How can I make money out of this?' are the ones that'll be around for a long time." NN